

## AGF MANAGEMENT LIMITED

(AGF.B – TSX \$22.70)

### Recommendation

Buy

### Risk

Low

### Target Price

\$30.00

### Price

\$22.70

### 52-Week Range

\$19.00 – \$39.50

### % Below High

-42.5 %

### % Above Low

19.5 %

### Shares O/S

89 million

### Market Cap

\$2.02 billion

### Average Daily Volume

20 day: 193,800

### Year-End

November 30

C\$	EBITDA	Multi.
2007a	\$3.89	5.8x
2008e	\$3.95	5.7x
2009e	\$4.20	5.4x
AUM \$ bill	\$51.8	3.9%

	Amount	Yield
Dividend	\$1.00	4.4%

### Analysts

Robin Cornwell B.A. (Economics),  
MBA



Data Source: www.BigCharts.com

## SECOND QUARTER REVIEW

### HIGHLIGHTS

- Q2-2008 Earnings Basically As Expected
- Net Mutual Fund Sales Continue In Redemption
- Accelerated Share Repurchase Program Should Help Earnings

### CONCLUSION

BUY: 12-Month Target Remains \$30.00

AGF Management (AGF) reported earnings largely in line with expectations on an EBITDA basis. EPS was also as expected. Assets Under Management growth slowed due to lower equity markets and net mutual fund redemptions. Trust operations continued to demonstrate rapid growth.

Q2/08 EPS was reported at \$0.49 per share, down 9% from \$0.54 last year. Excluding a securitization gain last year of \$8 million (\$0.06 per share), EPS increased 2% Y/Y. Adjusted EBITDA was \$0.99 per share (fd) for the quarter, up 4% Y/Y and sequentially excluding the securitization gain. Investment management EBITDA in the quarter decreased 7% Y/Y while the adjusted EBITDA from the trust operations increased by 38% Y/Y. AUM decreased 7% Y/Y while AGF Trust assets increased 48% Y/Y.

AGF's cash flow remains strong and investors could see the dividend increase to about \$1.10 per share over the next 12 months, for a gain of 10%. We expect total AUM growth to approximate 5% over the next 18 months. This lower growth is driven by more volatile equity markets and weaker net sales. The Trust company

should experience good EBITDA growth in 2008 of 30% Y/Y (excluding securitization gains) but see growth slower in fiscal 2009, more in the order of 20% on a Y/Y basis.

We have increased our 2008 EBITDA per share forecast to \$3.95 from \$3.90, and our EPS forecast to \$2.15 from \$2.12. For 2009, we have increased our EBITDA per share estimate to \$4.20 from \$4.10 and our EPS estimate to \$2.15 from \$2.12. For both years the changes reflect the impact from the expected share repurchases (see below) as well as slower expected AUM growth.

#### **Valuation and Recommendation**

Our 12-month target price is being maintained at \$30.00 for a total 12-month return of 34.5%. This valuation reflects the expected slower AUM growth and concerns over slower net fund sales. The lack of an affiliated distribution network and the lower profit margins, in our view, warrant for AGF an overall valuation discount to its peers. Our target values AGF at 7.1 times our 2009 EBITDA forecast versus IGM at 8.0 times and CIX at 8.9 times. AGF currently trades at almost 4.0% of AUM versus 10.9% and 9.5% for CIX and IGM respectively. The latter valuation is lower for AGF, as almost 40% of AGF's assets are institutional in nature and generally are valued less than retail assets. Our recommendation is maintained as a BUY.

#### **Share Repurchase Program To Intensify In Coming Months**

AGF announced that it plans to repurchase up to \$60 million or about 2.5 million Class B non-voting shares over the next several months. This will be facilitated through a three-year term bank loan.

#### **Net Redemptions In The Quarter**

AGF experienced net redemptions in the quarter of \$259 million, with long-term net redemptions of \$241 million. This was slightly better than last quarter, which experienced net long-term redemptions of \$270 million. Market performance was a positive \$1.2 billion versus a negative \$2.1 billion in the prior quarter.

#### **Investment Management Slows**

Investment management operations (fund management) reported a 5% Y/Y decline in total revenue and a 7% decline in management and advisory fees. The latter was slightly weaker than forecast but in line with the decrease in average AUM of 6%. Mutual fund AUM decreased by 7% Y/Y to \$28.6 billion. Total AUM including institutional and Private Investment Management (PIM) was reported at \$51.8 billion down 7% Y/Y but up from last quarter by 4%.

EBITDA was reported at \$71.5 million down, from \$74.8 million last quarter and down 7% Y/Y. The EBITDA margin (EBITDA as a % of management and advisor fees) was down marginally, to 43.9% from 44.6% in the same period last year. SG&A declined 7% Y/Y for no change in operating leverage on management fees but a positive overall operating leverage increase of 2% (including deferred sales charges).

**Trust Operation Continues To Display Big Growth**

The trust operations reported another good quarter with EBITDA increasing to \$12.4 million, up 38% Y/Y if a \$9.2 million securitization gain last year is excluded. However, EBITDA declined from \$12.9 million last quarter. This level of EBITDA was lower than expected by about \$1 million, principally due to higher than expected provision for credit losses (PCL) and further spread compression Y/Y. The average net interest margin decreased to 2.37% from 2.70% Y/Y as a result of increased GIC funding in the period.

Total assets increased to \$5.3 billion, up 48% from \$3.5 billion a year earlier. Secured loan and mortgage loan growth were the principal drivers behind the asset growth. Provisions for loan losses increased to \$3.4 million, up from \$2.5 million in the same quarter last year, largely due to volume growth but slightly higher than we forecast.

We expect volumes to remain good but nonetheless slow to the 15%-20% annual rate of growth range. Interest margins are expected to remain compressed as the shift continues to lower risk assets (with lower yields) and there is continued pressure from higher deposit costs. EBITDA is expected to benefit over the next several quarters as efficiency ratios improve. AGF seems well ahead of the other major mutual fund companies in its quest to enter the banking business; however, the expansion of the trust operations will continue to require capital infusions, and earnings could exhibit more volatility if loan quality deteriorates and if spreads decline more than we expect. EBITDA is expected to increase by 30% in fiscal 2008 (excluding the securitization gain in fiscal 2007) but slow in fiscal 2009 to an increase of 20% Y/Y.

**Smith & Williamson (S&W) Going Public Put On Hold**

AGF owns 30% of S&W, a U.K. financial services company, which was considering a public financing but has put that option on hold due to market conditions. The book value of AGF's investment is slightly over \$100 million. The deal could eventually surface \$100 - \$200 million of value to AGF or \$1 - \$2 per AGF share. The contribution to AGF's Q2/08 increased 52% Y/Y.

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